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Entrepreneurship and privatization for economic growth and sustainable development

Report of the Secretary-General

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I. Introduction

1. The present report is submitted in response to General Assembly resolution 48/180 of 21 December 1993 on entrepreneurship and privatization for economic growth and sustainable development, in which the Assembly requested the Secretary-General, *inter alia*, to prepare a biennial report, in consultation with the heads of relevant organs, organizations and programmes of the United Nations system, on policies and activities related to entrepreneurship, privatization, demonopolization and administrative deregulation.

2. The first report of the Secretary-General on the question (A/50/417) was submitted to the General Assembly at its fiftieth session. The present report, the second one on the issue, has been prepared by the Department of Economic and Social Affairs, which has been designated as the lead agency for its preparation. As at 28 May 1997, 13 organizations[1] out of the 29 requested, had provided inputs to the report. The richness of the materials collected is indicative of the importance the United Nations system attaches to the promotion of entrepreneurship and privatization, as well as of the wide range of activities where such promotion can be applied.

3. In view of the large volume of contributions as well as the variety of activities among and within the United Nations system concerning entrepreneurship, privatization, demonopolization and administrative deregulation, the present report has been organized according to theme, rather than by institution, and is analytical in character, with special emphasis on developing economies and those in transition from centrally planned to market-based economies.

II. Background to entrepreneurship

4. The degree of entrepreneurship prevailing in a country and the extent to which the potential for business creation is allowed to be realized is one of the determining factors in the economic growth of a society. Experience shows that the best results in entrepreneurial development are attained with programmes to promote and train entrepreneurs that are linked to support services with direct help to the potential entrepreneur in accessing finance, technical, managerial and marketing advice, and suitable physical facilities. There is no complete consensus on the validity of either the selection tests for potential entrepreneurs nor the exercises used for enhancing entrepreneurship traits, but results of entrepreneurship development programmes using those approaches have lent support to the view that the behavioural characteristics of persons need to be taken into account in screening potential entrepreneurs.

5. Although the extent and range of entrepreneurship differs from country to country and there are clear indications that there are far more potential entrepreneurs in some societies than in others (mostly among communities of migrants or sometimes after the ravages of war), even in the most traditional and static societies there are those with the characteristics needed to be entrepreneurs. There is abundant evidence that even in those communities there are significant prospects for business development if the environment is conducive to such initiatives.

6. The international conferences of the 1990s recognized the crucial role of the private sector, together with other actors of civil society, in achieving goals of economic, social and environmentally sound development. Agenda 21 looked at ways to strengthen the role of business and industry in sustainable development (chap. 30). The World Summit for Social Development addressed a number of recommendations to business enterprises for achieving social development goals. The business community participated closely in the United Nations Conference on Human Settlements (Habitat II) through, for instance, the World Business Forum. United Nations organizations are engaged in strengthening their relations with the private sector. In July 1997, the Secretary-General announced a number of steps in that direction (see A/51/950).

III. Development of small and medium-sized enterprises

7. The United Nations system has, during the period from 1995 to 1997, carried out a range of activities designed to support entrepreneurial development and the strengthening of the private sector in the developing countries and in countries with economies in transition. Most of the direct assistance projects have been in support of small and medium-sized enterprises and of institutions in the public and private sectors that can provide help to new and existing small businesses.

8. Various United Nations agencies have used different approaches. The International Labour Organization (ILO), for instance, has pioneered demand-led services for small and micro-enterprises that can be offered at low cost by the private sector and that can help entrepreneurs reach and service new customers, develop better communications with clients and suppliers and access commercial information.

The United Nations Industrial Development Organization (UNIDO), for its part, provides a broad range of services to help strengthen private sector representative organizations so that they can offer effective advisory and training services to their private sector members, especially small and medium-sized enterprises. As business incubators offer operating space and support services to small businesses, UNIDO undertook in 1995 a survey of 78 business incubators in Brazil, China, the Czech Republic, Mexico, Nigeria, Poland and Turkey and published *The Impact of Business Incubation Systems on Development in Industrializing Countries*.

9. One of the most effective programmes in the area of entrepreneurship and business promotion developed by the United Nations is the technical cooperation project for promoting entrepreneurship (EMPRETEC) programme, started in 1988 in Argentina and, by 1997, operating in 10 countries in Latin America and Africa. EMPRETEC is now a United Nations technical cooperation programme implemented jointly by the Department of Economic and Social Affairs and the United Nations Conference on Trade and Development (UNCTAD). It promotes entrepreneurship and provides assistance to respond to the changing needs of small entrepreneurs. EMPRETEC plays a major role on two levels — on the national policy level by the creation of legal and institutional infrastructures supporting the development of small and medium-sized enterprises and on the capacity-building level of both national institutions and individual enterprises. By working closely with Governments, business organizations and small and medium-sized enterprises, EMPRETEC has helped influence national policies in the areas of taxation, insurance and labour law, and has helped create business support centres, associations, cooperatives and international networks. Some business support centres are fully privately run (e.g., in Venezuela), while some are fully public (e.g., in Nigeria). EMPRETEC Ghana became a fully fledged private non-profit organization in 1994, and its activities are now financed by bilateral funds from the Governments of the United Kingdom of Great Britain and Northern Ireland and the United States of America, the European Union and two leading Ghanaian banks. The fundamental task of the programme is to establish in each country an institutional base of public-private sector partnerships that will support the creation, development and expansion of small and medium-sized enterprises. The experience is that full public-private partnership programmes (e.g., Ghana and Uruguay) are more successful than in cases where the programme lacks active support from both sectors.

10. Small and medium-sized enterprises face major difficulties in all countries. They lack access to finance and sources of technology and encounter problems in marketing their output. Some developing countries (e.g., India and Pakistan) have tried to support small and medium-sized enterprises by imposing quotas on lending banks relating to the proportion of their loans that must go to those enterprises, or by laying down a percentage of government and public procurement from the enterprises, or even by reserving some products for manufacture only by small and medium-sized enterprises. Those measures, while well intentioned, serve to distort market forces.

11. Governments have not been very successful in the past in providing support services to small and medium-sized enterprises in the form of training, technical, management and marketing advice and assistance and financial help. The public agencies and promotional institutions that have been set up throughout the developing world to assist those enterprises have had limited impact. They have suffered from government interference resulting in weak management and staffing and have gained the confidence of only a small number of the small and medium-sized enterprises that really need help. In most developing countries, the majority of small and medium-sized enterprises have not benefited from such government-supported agencies.

12. In recent years, support services have been offered not only by central public support institutions but also by regional and local bodies, chambers of commerce, business associations, universities, research and sectoral institutes (e.g., on technology), financial institutions and private consultants (under special arrangements, with government funding). The limited experience of those efforts shows that the solution to the provision of support may lie in public-private cooperation.

13. The United Nations system and other donors have recognized that support services are needed to foster the growth of formal small and medium-sized enterprises. Some United Nations agencies have focused particular attention on this sector, seeing in it the true expression of domestic entrepreneurship development. One major regional initiative supported by the United Nations Development Programme (UNDP) in Africa is the Enterprise Africa Programme, which will be implemented in 1997. Over the years, the Regional Bureau for Africa has supported a number of programmes relating to small and medium-sized enterprises and the Enterprise Africa Programme is an attempt to bring those efforts together into a regional programme, drawing upon best practices and experiences from the previous programmes. The programme is intended to operate as a facilitator and coordinator of small and medium-sized enterprise activities in the region. It will work closely with existing African institutions, private sector companies and

non-governmental organizations in the implementation of activities.

14. Another related area in which UNDP has been active is support for setting up business incubators, which provide assistance in premises and services for start-up and expansion of small enterprises. In collaboration with the Economic and Social Commission for Western Asia (ESCWA), UNDP organized in 1996 a regional seminar in Beirut on the role of business incubators in economic development in the Middle East, with a wide diversity of participants from the region. In Tunisia, for example, a national business incubator programme has been initiated by UNDP in collaboration with the national authorities to establish such business incubators in different regions of the country, focusing on creating new enterprises and high-technology businesses.

15. The Regional Bureau for Europe and the Commonwealth of Independent States of UNDP, which deals with economies in transition, has implemented a number of activities aimed at promoting private sector development in the region. One of its activities has been a subregional small and medium-sized enterprise programme, with four participating eastern and central European countries. Based on the experiences and successes of that programme, a new and comprehensive small and medium-sized enterprise programme has been developed for the 1997-1999 cycle. The target enterprises of this programme are start-up, micro-, small and medium-sized enterprises, ranging from 1 to 500 employees. Each participating country will choose what size of enterprises should be the target group of its national project and then request services accordingly from the regional programme. During its first three years, the project is expected to serve a minimum of 10 countries in the region.

16. In 1995, ILO selected the topic "General conditions to stimulate job creation in small and medium-sized enterprises" for inclusion in the agenda of the 1997 session of the ILO Conference. In another parallel move, in 1996, ILO convened a biennial enterprise forum, with 600 participants from 99 countries, under the general theme "Promoting social progress and competitiveness in a global economy". Those taking part included entrepreneurs, managers of large enterprises, senior government officials and representatives of employers and trade unions, business schools and universities. There was an urgent appeal from entrepreneurs to help foster an enabling environment for enterprises to create jobs.

17. UNCTAD has given high priority in both policy research and technical assistance activities to the promotion of entrepreneurship and small and medium-sized enterprise development. UNCTAD has worked with the Department of Economic and Social Affairs of the United Nations Secretariat, ILO and UNIDO in extending EMPRETEC-type projects to Egypt, Indonesia, Pakistan, the Philippines and Viet Nam. In cooperation with the Netherlands aid programme, UNCTAD has implemented small and medium-sized enterprise support projects for the least developed countries — Burkina Faso, Nepal, Samoa and Zambia — and in the promotion of women entrepreneurs in 10 least developed countries.

18. UNCTAD and UNIDO signed an agreement in April 1996 to cooperate on increasing investment promotion and enterprise development, especially for small and medium-sized enterprises. Similar agreements already exist between UNCTAD and the Department of Economic and Social Affairs, UNIDO and ILO and with the Food and Agriculture Organization of the United Nations (FAO) on entrepreneurship development.

19. In October 1996, UNIDO organized a conference aimed at the establishment of an International Business Advisory Council (IBAC), at which more than 100 industrial executives from the private sector of countries in Africa, Asia, Europe and Latin America attended. The aim was to assist UNIDO to build more effective partnerships with private industry. IBAC will function as a think tank and advisory council for UNIDO, helping to build bridges between industry and Governments and making possible exchanges between private sector industrialists from developed countries and those from developing countries and economies in transition. UNIDO has also initiated the creation of a National Industrial Business Council (NIBC) in each country, the objective of which is to identify demand from the private sector for UNIDO and other support services. At the same time, the NIBCs will help provide sources of expertise to UNIDO.

20. UNIDO has made a considerable effort in recent years to increase the involvement of private sector entities, especially using private sector institutions and associations as project counterparts, that is, implementation agencies of UNIDO-supported projects. Indeed, the share of such private sector counterparts in all UNIDO technical cooperation projects increased from slightly more than one quarter in 1992 to about one half in 1995. One implication of the increased participation of the private sector in UNIDO technical assistance projects — both as counterparts and as beneficiaries — is that the services demanded from UNIDO have become more specific and sophisticated: up-to-date expertise is needed to advise, for instance, on competitive and environmentally friendly management.

IV. Micro-finance

21. In developing countries, particularly the least developed in Africa and Asia, entrepreneurship and the growth of private enterprise is expressed mainly in the creation of self-employment and micro-businesses, a considerable number of which are operated by women. These micro-enterprises, employing either a single person or a few, mostly family, employees, are mainly the response of the poor to the inability of those countries to provide sufficient employment opportunities in the formal business sector. In most developing countries in Africa and Latin America more than 50 per cent of the population are engaged in informal micro-business activities and these are often among the poorest people in the population. For this reason, the micro-enterprise sector has correctly been identified with the poor, and donor support for the expansion of micro-credit to provide finance for micro-business development is seen as a major effort towards poverty alleviation.

22. One major initiative, of which UNDP was one of the main supporters, was the Micro-credit Summit held in Washington, D.C., in February 1997, which brought together 2,500 participants from more than 100 countries, including beneficiaries of micro-finance programmes, organizers of micro-credit projects, commercial and development banks, non-governmental organizations, multilateral and bilateral donors, as well as heads of Government and senior officials who were heads of small business promotional institutions. The Summit participants affirmed that micro-credit — small loans of $200 to $500 for micro-businesses, mostly channelled through non-governmental organizations — was a most effective tool in poverty reduction. The Micro-credit Summit issued a declaration to expand such credit to reach 100 million poor families, especially the women of those families, by the year 2005.

23. UNDP, apart from lending considerable support to the Summit, also launched simultaneously a global micro-finance programme, known as Microstart, which was to initiate and expand micro-finance activities. The programme draws on the best experiences and methodologies applied in a number of countries. The activities of the programme focus on lending very small amounts of credit to self-employed micro-entrepreneurs, especially women. Organizations, principally non-governmental organizations, participating in the programme and receiving technical assistance as well as capital grants of up to $150,000 for loans and overhead costs must demonstrate potential and commitment to become self-sustainable, in a specified time, from the interest rates and fees charged to their micro-entrepreneur clients. An international subcontractor (including the most experienced micro-finance organizations in the world, such as the Grameen Bank), together with a selected local technical service provider, will supply a wide range of services to the organizations participating in the programme. Twenty-five countries will participate in the pilot phase of the programme now being implemented.

24. The greater emphasis placed recently on micro-credit with the creation of the Consultative Group for the Alleviation of Poverty — a grouping of a large number of donor agencies, both multilateral and bilateral, coordinated by the World Bank — has produced an impressive cooperative effort in support of micro-credit.

25. FAO has also been active in the promotion of micro-finance. It launched programmes in the United Republic of Tanzania and Zambia, which will be extended to other countries after 1997, aimed at developing practical guidelines for the strengthening of rural micro-finance cooperation mechanisms at the village level. In this connection, FAO held a regional meeting at Bangkok in May 1997 to develop new strategies and programmes to improve the income-earning capacity of the disabled in rural areas in specific business fields.

26. Support for micro-businesses has always involved the gender issue as women participate in great numbers in running micro-enterprises. The United Nations Development Fund for Women (UNIFEM) — the United Nations agency assisting women in business — has been active in working with Governments, non-governmental organizations, women's organizations and other advisory agencies in developing innovative approaches to increase women's access to credit, technology training and other advisory and assistance services to make women's businesses more productive and profitable.

V. Privatization

27. The scope of the restructuring of the role of the State and the private sector in most countries has been expanded and the privatization process has gathered momentum, especially after the collapse of the centrally planned regimes of eastern and central Europe and the former Soviet Union in the period from 1989 to 1991. In an attempt to move rapidly to a market economy, the former centrally planned countries have used privatization as a major instrument in this change.

28. It is not surprising that the actual transfer of State-owned business assets to the private sector has been relatively slow in developing countries. Such privatizations

are difficult where people are poor and domestic savings are low. To achieve successful sales of public enterprises to the private sector, it is necessary to have a strong legislative framework, a high degree of capital market development and, in many cases, sufficient persons with the capacity and integrity to develop an effective regulatory system. A sound banking system and a reliable judicial process is also necessary. Much of the above is lacking in most developing countries.

29. Voucher schemes and other forms of wide distribution of ownership of privatized assets do little to improve the efficiency of the actual operation of those enterprises. Raising productivity and reducing continuous losses that drain resources from State treasuries, it should be recalled, are two of the major aims of privatization. Where privatization is carried out solely for fiscal benefits or to satisfy political (or donor) pressures, even if care is taken that the assets are distributed as equitably and socially acceptably as possible, the hoped-for economic benefits are often not achieved. If a Government wishes to improve the efficiency of the operation of former State enterprises, it has to consider giving ownership and management to investors who have the experience and skills to upgrade the performance, even if that means, at times, selling the assets to foreign buyers.

30. Privatization in its various forms can increase opportunities in diverse ways. The privatized assets themselves could open up opportunities for the private sector for potential entrepreneurs, if qualified local business people with the skills and attributes to make a success of the takeover are enabled to participate in the process. Privatization virtually always leads to employment redundancies, and there is usually a general slimming down of the enterprise closer to the core activities. In general, after the privatization, about 30 to 50 per cent of the workforce is shed within the first few years.

31. The United Nations system has sought to assist in this difficult process of privatization. In 1994 UNCTAD set up an Ad Hoc Working Group on Comparative Experiences with Privatization (following the eighth session of UNCTAD, in Cartagena) which raised substantial interest. National seminars and meetings were held in Zimbabwe and Uzbekistan in 1995 and in Zambia in 1996. International meetings on the experience of privatization have been organized jointly by UNCTAD, the World Bank and the Organisation for Economic Cooperation and Development (OECD), for example, at Prague in May 1996. UNCTAD has also issued a major publication, *Comparative Experiences with Privatization*, in 1995, which has helped to disseminate information on experiences of privatization in various countries.

32. The Economic and Social Commission for Asia and the Pacific (ESCAP) has undertaken several studies on the legal and institutional aspects of privatization. It has organized regional and subregional seminars on privatization and private sector development at Karachi in 1994, Bangkok in 1996 and Almaty, for the central Asian economies in transition, in May 1997.

33. UNIDO also directly advised the Governments of Peru and Yemen on support systems the Governments need to develop successful privatization programmes. Counterparts from the privatization agencies of those countries visited North America and Europe to learn more about the experiences of privatization at first hand.

34. ILO is concerned with the impact of privatization on the interests of employers and employees and is currently implementing a two-year (1996-1997) action programme on privatization, structuring and economic democracy. The programme aims to highlight the organizational and social principles of implementing privatization programmes successfully.

35. FAO has also been working on the restructuring of rural institutions in more than 20 countries of Asia, the Middle East and Latin America. The restructuring has involved the privatization of some of the activities that had previously been undertaken by the State in the field of rural development.

36. A post-privatization conference for Latin America was organized by the Department for Development Support and Management Services of the United Nations Secretariat and the Private Sector Development Programme of UNDP in Argentina in October 1995, focusing on three main areas: regulatory and monopoly issues, competition and the enabling environment and provision of social safety nets. The conference also discussed how to resolve problems of regulating monopolies, before and after privatization, and how to eliminate restrictive business practices preventing the emergence of competition in the provision of public services.

37. Technical assistance on public enterprise reform and post-privatization regulation was provided by advisory missions of the Department for Development Support and Management Services to Ghana, Ethiopia and Fiji, and an international conference on performance contracting was held at New Delhi in January 1997, at which the goals of public enterprise reform in the context of privatization and contracting out were re-examined.

38. Various ways are now being proposed and tried to introduce private capital and management expertise for construction of infrastructure (roads, railways, bridges, power stations) through such arrangements as build-operate-transfer (BOT) contracts. The Private Sector Development Programme of UNDP has assisted in some countries. Such contracts, whereby the infrastructure is transferred to the Government after a private company has constructed and operated the facility at its own expense for a number of years and has been allowed to obtain a reasonable return on its investment, need careful monitoring as do arrangements for leasing of factories and facilities, as well as the offer of concessions (mining, logging, etc.) to foreign private companies.

39. Social safety nets have mitigated the damaging impact of some policy reforms on the poor and on the more vulnerable elements of the population. As indicated earlier, structural adjustment and policy reform do not quickly improve the quality of life for all the population. Following the major economic changes in the wake of large-scale privatization and restructuring, many people lose their jobs and others lose their livelihoods through the collapse of small and micro-businesses owing to the inability to compete in open liberalized markets. Social safety nets will differ in each country but generally will involve setting up a special social development fund. The fund usually provides financial relief to those made unemployed through privatization and restructuring, ensures continuation of benefits to the elderly and disabled, offers loans or grants for small business start-up or for retraining and may help set up business advice centres to assist those considering becoming self-employed and setting up their own businesses.

VI. Restructuring of the military industry for civilian markets

40. A major problem confronting many countries in transition to market economies in eastern and central Europe, the former Soviet Union and the Far East is how to convert military manufacturing to the production of products for civilian use. There are vast resources of technical skills and competence, as well as of high-technology equipment invested in military industries and facilities that could provide the basis for development of high-technology industry for the industrial and consumer market.

41. A major conference was organized jointly by the Department for Development Support and Management Services and the State of Rheinland-Pfaltz, Germany, in October 1996, in cooperation with the European Commission. More than 150 representatives from over 30 countries participated. The conference provided a forum for an exchange of views and experiences of various countries in the decommissioning of military bases and defence industries, and focused on conceptual as well as practical aspects. The major issues addressed included providing an enabling environment for conversion at both national and local levels; the role of public and private sectors; conversion of military bases and defence industries to export processing zones; tourism development in former military bases and defence complexes; civilian manufacturing, prospects for small and medium-sized enterprise development; and continuity of social infrastructure services.

42. Military conversion is particularly important to the social and economic stabilization of countries that have experienced internal conflicts. Regrettably, there are a number of such countries — Angola, Cambodia, El Salvador, Ethiopia, Guatemala, Mozambique, South Africa, the Sudan, Viet Nam. All those countries that have emerged from conflict have had to rebuild their economies through private sector development, not only in transforming whatever military industries may have operated (mostly under State control), but also in converting military sites, demobilizing those who have fought in the conflict and disposing of surplus weapons.

43. In the economies in transition there are large concentrations of military industries in districts where there are few alternative employment possibilities. The skills needed in a private enterprise engaged in civilian production are somewhat different from those required in military production. This calls for a new approach by workers and managers, involving a change from the attitude of working in State enterprises to the outlook of private businesses engaged in finding markets and making a profit. Retraining of workers both in skills and in attitudes is necessary.

44. A specific public-private partnership undertaken by the Department for Development Support and Management Services is a two-year UNDP-funded project on military industry conversion in China. The project involved workshops conducted in Chongqing and Wuhan in 1995 for senior managers from 75 selected converted enterprises to address issues related to adjustment of military manufacturing in China, followed by a selected group of military enterprises developing conversion/business plans on the basis of a clear market orientation. The workshops will facilitate interaction with the international business community, leading to joint ventures, licensing and other co-production arrangements, and an international conference to disseminate the lessons of the experience.

VII. The enabling environment

45. Private sector development can normally flourish in an environment in which market forces are allowed to determine the form that development will take. In market economies, which most developing countries and economies in transition are now working to create, private entrepreneurs are encouraged to seize economic opportunities to develop products and to provide services in response to market demands. Unfortunately, this development cannot take place overnight. After years of heavy government restraint, the private sector is often too weak in financial resources, skills and technological information to be able to compete with higher-quality and cheaper imports when trade is liberalized. Some small enterprises may fail in trying to make the transition to market economies. After years of living under centrally planned regimes where the private sector hardly existed — as in the countries of eastern and central Europe and the former Soviet Union — most fledgling entrepreneurs lacked financial and business experience and the facilities were not available for them to start operating.

46. The entrepreneurial surge which, it is hoped, will ultimately result from the process of liberalization and deregulation can only be expected to take place after some time has elapsed, after support services to help with the technicalities of start-up have been set up and there has been the opportunity to upgrade technologies. However, most successful enterprises that do survive and grow will be strong and competitive and able to take their place in the global economy. Through competition, the incentive is strong to keep costs down and produce and distribute products and services of high quality and that are keenly priced. The quality of goods produced improves because the markets will reject inferior products that offer less then true value for the price charged. As an economy is opened up and there are less restrictive regulations, the role of Government is inevitably reduced and the opportunity for a wide range of corrupt practices is lessened.

47. International cooperation and partnership have a vital role in creating a favourable climate in which capital flows, investment and trade can flourish. The Economic and Social Council concluded in 1997 that the broad elements of an enabling international environment include: the creation and maintenance of stable international conditions; democratization in international relations in accordance with the Charter of the United Nations and international law; establishment of an open, rule-based, equitable, secure, non-discriminatory, transparent and predictable multilateral trading system; and support for the weakest and most vulnerable members of the international community through more favourable treatment in trade and finance.[2]

A. Legal and regulatory framework

48. The Government's activities can be redefined and reduced in scope as it withdraws from the direct provision of services and manufacture. Experience has shown that Governments are unsuited for this latter role but the Government can continue to play a vital role in creating an effective legal and regulatory framework in which the private sector is enabled to operate. As those in countries moving towards a market economy keep pointing out, the private sector cannot develop fully unless the Government institutes a legal framework that guarantees and protects private property, governs business relationships and enforces the commitments involved in business contracts. Suitable enforceable legislation is needed as related to the personal liabilities of owners and the bankruptcy of businesses as well as the obligations of those involved. An adequate legal framework is vital in developing an enabling environment in which business creation and operation can function successfully.

49. United Nations agencies have been active in assisting developing countries in preparing appropriate legal frameworks. In 1996, the Department for Development Support and Management Services of the United Nations Secretariat undertook a study on entrepreneurial law in Africa to identify the elements of an appropriate legal regime for entrepreneurial development. The study, drawing on the experiences of Ghana, Kenya and South Africa, identifies the main factors that affect the legal and regulatory framework for entrepreneurship and small business development in Africa. It deals with specific aspects of the situation in Ghana, Kenya and South Africa, giving prescriptions for the improvement of such frameworks. Recommendations are also made for establishing an enabling legal regime for the development of entrepreneurship and small enterprises in other African countries.

50. Some of the major complaints of businessmen, especially in small enterprises, against Governments, particularly in developing countries, are of excessive and burdensome regulations. Deregulation — the process of simplifying the regulatory system and abolishing altogether unnecessary and unenforceable regulations — has now become a watchword for government reforms in all countries, developed and developing.

51. In the Middle East, UNDP has helped countries embark on programmes of regulatory reform. In Jordan,

assistance and advice has been given — together with UNIDO — to streamline regulations to help boost exports. In Lebanon, UNDP has assisted in promoting administrative reform and has assisted the Government to rehabilitate public administration after the ravages of the civil war. In collaboration with the International Monetary Fund and UNCTAD, UNDP has helped the Government to revise the tariff and customs structure and procedures. In Asia, UNDP efforts have been of particular significance in Viet Nam in assisting the Government to introduce general legal reforms needed for transition to a market economy.

52. In Latin America, UNDP has helped several countries to develop a more effective and reliable judicial system to enforce laws in a timely and just manner so as to create business confidence in the legal system.

53. As privatization proceeds and more public enterprises are sold to private ownership, a new form of regulation may be required in which responsibility for the provision of monopoly public services is handed over to the private sector. Regulation is needed to ensure that the interests of consumers, that is, the public, are served even if profit is a major objective of the new owners. When the provision of such vital services as telecommunications, electricity supply, railways, freight transport, fuel distribution and so forth are acquired by private owners, whether through the acquisition of a State monopoly by a single large private corporation or through a widely distributed share ownership, it is appropriate that the Government set up an independent and effective regulatory body to look after consumer interests and wider national and environmental concerns. Where there is full competition in the provision of privatized services, there is less need for regulation, although even in some such situations, a form of regulation may help to ensure quality standards.

B. Taxation

54. One of the problems in the relationship between Government and private business is that of taxation. In a modern market economy some taxes have to be paid by all individuals and commercial organizations that benefit from income above a certain agreed level. In virtually all countries, small businesses complain both of high penal levels of taxation and of the costs of compliance with the bureaucracy involved in determining how much tax has to be paid and in paying the amount in the required instalments.

55. Taxes should be as low as feasible and broad-based, with as few exceptions and exemptions as possible. It is unhealthy in an economy that the investment decisions of entrepreneurs should be motivated by tax considerations, and the national economic interest is least served in such a situation. Investment decisions should be made in the light of the expected economic returns and not because of tax advantages.

56. The tax system should be as simple as possible to avoid loopholes that encourage avoidance and evasion. Penally high taxes have many serious negative effects. They discourage work effort but most of all they distort investment decisions and act as a disincentive to growth and expansion and even to employment creation. In fact, in many developing countries, high and discriminatory tax rates result in driving businesses underground into the informal sector where they pay no taxes and the Government loses all the revenue. Also, when taxes are unreasonably high, small businesses have difficulty in accumulating the required capital from retained earnings to develop and expand.

57. Most developing countries as well as countries in transition to market economies face problems in enforcing tax laws and in collecting taxes, and this is undoubtedly made even more difficult when taxes are unreasonably high. It is far more effective to have broad-based, relatively low tax rates and a simplified system that the authorities are able to enforce and collect, rather than high rates in theory, of which a large part remains uncollected.

58. It is more effective and economically sound that taxes paid by business on earnings should form a greater part of government revenue than income from customs tariffs, high registration fees and excessive levies on services. It is also counterproductive for Governments to take high tax payments from a small number of foreign corporations that cannot avoid payment rather than collect broad-based low taxes from all businesses, thus ensuring a level playing field for commercial competition between firms. Taxing mainly foreign-owned firms will ultimately deter foreign investment.

59. Taxation is a field in which more donor agency assistance is needed to help developing countries institute and implement an appropriate tax system.

C. Foreign investment

60. With low levels of domestic savings and a dearth of local capital many privatization offers of State enterprises in developing and transition countries are taken up by foreign buyers. In some of those countries distinct efforts are made to interest foreign investors in the belief that only they could have the financial, technological and managerial

resources, to generate the greatest improvements in efficiency in the operation of the assets being sold.

61. Foreign investment in general and the sale of State enterprises to overseas buyers in particular tends to arouse conflicts between those who doubt the commitment and motives of foreign investors and those who want the most efficient solutions. Most countries accept the need, even the urgent need, for foreign investment and recognize that it is the only way they can obtain the financial inflows and technology transfer without which they cannot make the leap forward in development needed to raise living standards. It is important, however, that developing countries are well advised and assisted to help obtain the best deals in negotiating with foreign investors.

62. There has been a tremendous increase in private capital flows to developing countries (including transition economies) in the past few years. The World Bank reports that the private capital flow to those countries has increased from $44 billion in 1990 to $230 billion in 1996, dwarfing official development assistance, which has stagnated at $40 billion to $50 billion per year. Unfortunately, not all countries have benefited equally. In 1995 only 12 countries received 76 per cent of total private capital flows. The World Bank sees a major role for itself (in cooperation with other donors) in diversifying the destination of private investments, in particular to sub-Saharan African countries, which received only 5 per cent or $12.1 billion of the private capital flow to developing countries in 1996.

VIII. Partnership between the public and private sectors

63. In most developing countries and particularly in economies in transition, the indigenous private sector is weak, both in size and in power, and is poorly organized. This inevitably makes the Government the dominant institution in the country that has to take the lead in planning the physical infrastructure and human resources development. If the private sector is to be the engine of growth, it must be helped to fulfil its role to implement the Government's plan.

64. Also, as the private sector is weak in those countries, it needs the Government's help in setting up support initiatives, in the manner described above, in areas such as finance, research and development, new technologies, market research (especially in export promotion) and training.

65. The agencies of the United Nations system are engaged in the strengthening of consultations and relationships with the private sector worldwide. In the reform programme of July 1997, the Secretary-General announced that he would work towards establishing a jointly funded inter-agency business liaison service, along the lines of the non-governmental liaison service already in existence. Arrangements will also be made with leading business organizations to establish improved mechanisms for continuing the dialogue between representatives of businesses and the United Nations.

66. In April 1996, the Department for Development Support in Management Services of the United Nations Secretariat organized a technical colloquium — "In pursuit of the public-private partnership in a market economy and economies in transition". The objective of the colloquium was to draw upon the real experiences of high-level executives from developed, developing and transitional economies, in order to extract comparative lessons on impediments to successful public-private partnerships worldwide. The colloquium concluded that, for public-private partnership to exist, there must be expectations of social gain on the part of Government and of commercial gain on the part of business. These expectations are expressed in management contracts, leases, concessions, BOT contracts, contracts of sale in the case of privatization by disinvestment, etc. The Governments of many countries do not have the technical capacity to structure and negotiate the contracts nor do they have the capacity to monitor and enforce them. The colloquium pointed to the need for technical assistance in building national capacity in contract negotiation, monitoring and enforcement.

67. The United Nations Environment Programme (UNEP) launched two statements of environment commitment, one for the banking sector and the other for the insurance industry. Those statements require banks and insurance companies to adopt sound environmental practices. By March 1997, 94 banks and 64 insurance companies from 25 countries had signed up. UNEP continues to work with private and public banks to promote the role of the financial service sector in sustainable development.

68. Public-private partnerships, whether entirely domestic or involving foreign partners, can be a means of realizing military conversions. Small and medium-sized enterprises that have a high employment potential should especially be promoted, such as service businesses that originate from military research and development or military sites. Examples are enterprises providing health services, warehousing, retailing and wholesaling, port and airport

services, maintenance services, transport, tourism, education, training and information services.

69. It should be noted that although in most developing and transition countries, the main problem is a weak, disorganized private sector and conflict between Government and private business, there are a few middle-income countries, mainly in the Far East and in Latin America, where cooperation between Government and the private sector reaches a cozy relationship to the point where the elected Government and big business can collude to serve the interests of business rather than the country as a whole. In such situations, the danger of corruption in Government is high and those suffering may be small businesses that have neither the influence nor the contacts to obtain the favours from which larger firms benefit.

70. On 16 December 1996, the General Assembly adopted resolution 51/191 entitled "United Nations Declaration against Corruption and Bribery in International Commercial Transactions", and in May 1997 OECD ratified an agreement by the leading industrialized countries of the world outlawing the bribery of foreign officials by the end of 1998 and ending the tax deductibility of such payments.

IX. Recommendations

71. Further efforts by the United Nations and the organizations of the United Nations system should be encouraged to build partnerships and consult with the private sector with a view to achieving developmental objectives, including the goals established by international conferences.

72. The organizations of the United Nations system should be encouraged to continue their efforts to support entrepreneurship, privatization, demonopolization and the simplification of administrative procedures, in accordance with General Assembly resolutions 48/180 and 50/106.

73. The recommendations of the Micro-credit Summit held in February 1997 are welcomed and all actors should be encouraged to work towards achieving those recommendations and expanding micro-credit to reach 100 million families by the year 2005. The organizations of the United Nations system should be encouraged to continue and enhance their micro-credit programmes and to support the gender objectives in particular.

74. Governments and the organizations of the United Nations system should strengthen and better coordinate their support to small and medium-sized enterprises. They should strengthen their support for the conversion of military industries and bases to civilian use.

75. The organizations of the United Nations system should provide more assistance to Governments in streamlining and simplifying their tax systems and strengthening tax administration.

76. The United Nations system and other donors should work together in advising and assisting Governments at their request in ensuring that the public interest is respected in privately run public services.

77. The agreed conclusions of the Economic and Social Council on fostering an enabling environment should be implemented, in particular as they relate to national and international action to make the environment conducive to investment and trade.

Notes

[1] The Department for Development Support and Management Services of the United Nations Secretariat, ECA, ECLAC, ESCAP, ESCWA, FAO, ILO, UNCTAD, UNDP, UNEP, UNIDO, UNIFEM and the World Bank.

[2] *Official Records of the General Assembly, Fifty-second Session, Supplement No. 3* (A/52/3/Rev.1), chap. II, agreed conclusions 1997/1.